

Message Text

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ACTION EB-07

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FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 /107 W

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 1016

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS UNN

AMCONSUL/ZURICH 1533

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF JULY 13-19

1. ALTHOUGH THE DOLLAR REACHED A HIGH FOR THE YEAR AGAINST THE FRANC, THE STRENGTH OF THE FRANC AGAINST OTHER CURRENCIES, PARTICULARLY THE DM, REMAINS A MATTER OF CONCERN TO THE SWISS NATIONAL BANK (SNB) WHICH IS CONSIDERING FURTHER MEASURES TO STABILIZE THE FOREIGN EXCHANGE MARKET. THE DOMESTIC MONEY AND CAPITAL MARKETS WERE NORMAL THIS WEEK AND THERE WAS LITTLE REACTION TO PRESS REPORTS THAN THE CONFEDERATION PLANNED TO BORROW FUNDS FROM THE COMMERCIAL BANKS. IN ITS MONTHLY BULLETIN, THE SNB REPORTS THAT THE FIGHT AGAINST INFLATION IS STILL THE MAIN OBJECTIVE

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OF MONETARY POLICY AND THERE IS NO CHANGE IN THE PLAN

TO ALLOW ONLY A MODERATE EXPANSION OF THE MONEY SUPPLY THIS YEAR. ECONOMIC FORECASTS BY TWO MAJOR BANKS SEE NO PROSPECTS FOR AN ECONOMIC UPTURN UNTIL WELL INTO 1976. THE FEDERAL COUNCIL TOOK MORE ACTION TO HELP THE CONSTRUCTION INDUSTRY AS UNEMPLOYMENT ROSE AGAIN IN JUNE. THE VALUE OF IMPORTS IN JUNE CONTINUED TO DECLINE WHILE EXPORTS RECORDED THEIR FIRST YEAR-TO-YEAR INCREASE IN 1975; THE MONTHLY TRADE BALANCE REGISTERED A SMALL SURPLUS, THE FIRST SINCE NOVEMBER 1968.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD; THE SPOT DOLLAR CONTINUED TO STRENGTHEN THIS WEEK ON THE BASIS OF THE UPWARD MOVEMENT OF SHORT-TERM US INTEREST RATES AND INDICATIONS THAT ECONOMIC CONDITIONS IN THE US ARE IMPROVING. THE JULY 18 CLOSING RATE IS THE HIGHEST POINT REACHED BY THE DOLLAR SO FAR THIS YEAR AND REPRESENTS A 10 PERCENT INCREASE FROM THE LOW OF SF 2.39 RECORDED IN FEBRUARY. GOLD TRADING WAS QUIET WITH LOW TO MODERATE TURNOVER. RATES AS FOLLOWS:

	7/14 (OPEN)	7/18 (CLOSE)
SPOT DOLLAR	SF 2.5830	SF 2.6275
DISCOUNTS		
ONE MONTH	- 3.8	-2.6
3 MONTHS	- 3.4	-2.8
6 MONTHS	- 3.1	-2.7
GOLD	\$165.25	\$163.75

DESPITE THE DECLINE OF THE FRANC AGAINST THE DOLLAR, THE FRANC CONTINUED STRONG AGAINST MOST OTHER CURRENCIES, PARTICULARLY THE DM WHICH CLOSED AT SF 105.71 ON JULY 18. IN A SPEECH THIS WEEK, SNB PRESIDENT LEUTWILER SAID SNB INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET HAVE AMOUNTED TO \$100 MILLION OR MORE PER DAY IN RECENT WEEKS. LEUTWILER INDICATED THE SNB WAS CONSIDERING FURTHER MEASURES TO STABILIZE THE FOREIGN EXCHANGE MARKET.

3. MONEY AND CAPITAL MARKETS: THE LIQUIDITY SITUATION REMAINS NORMAL AND THE CALL MONEY RATE WAS UNCHANGED AT 1.0 PERCENT ALL WEEK. STOCK PRICES CONTINUED TO MOVE SLOWLY UPWARD; THE SKA INDEX ROSE FROM 186.9

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(END 1959 EQUALS 100) ON JULY 11 TO 189.3 ON JULY 18. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS WAS 6.48 PERCENT ON JULY 18, VIRTUALLY UNCHANGED FROM 6.47 PERCENT ON THE PREVIOUS FRIDAY. ACCORDING TO PRESS REPORTS, THE CONFEDERATION WILL PLACE NOTES TOTALING BETWEEN SF 200 AND SF 250 MILLION WITH THE COMMERCIAL BANKS IN THE LAST HALF OF AUGUST. THESE FUNDS WILL PRESUMABLY BE USED TO MEET CURRENT OPERATING EXPENSES OF THE CONFEDERATION

(ESTIMATED BUDGET DEFICIT FOR 1975 IS SF 458 MILLION).

4. MONETARY POLICY: IN ITS MONTHLY BULLETIN FOR JUNE, THE SNB REPORTS THAT THE FIGHT AGAINST INFLATION REMAINS THE NUMBER ONE PRIORITY OF GOVERNMENT AND SNB POLICIES. THE SNB, THEREFORE, IS HOLDING TO THE PROGRAM ANNOUNCED AT THE FIRST OF THE YEAR TO ALLOW ONLY A MODERATE (6 PERCENT) EXPANSION OF THE MONEY SUPPLY (M 1) IN 1975 (SEE BERN A-3). THE BULLETIN POINTS OUT THAT M 1 ACTUALLY EXPANDED AT A LOWER RATE THAN PLANNED DUE LARGELY TO STAGNATION OF DEMAND FOR BANK CREDIT. IN THE FIRST FIVE MONTHS OF THIS YEAR, THE TOTAL VOLUME OF BANK CREDIT ROSE ONLY 2.2 PERCENT OVER THE SAME PERIOD IN 1974. IN THE SECOND HALF OF 1975, HOWEVER, THE SNB WILL TAKE WHATEVER MEASURES ARE NEEDED TO MEET THE ANNUAL MONETARY GROWTH TARGET.

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ECONOMIC

5. ECONOMIC FORECASTS: IN SEPARATE STUDIES RELEASED THIS WEEK, BOTH THE SWISS CREDIT BANK AND THE UNION BANK OF SWITZERLAND PREDICT A FURTHER DEEPENING OF THE SWISS RECESSION THIS YEAR AND NO PROSPECTS OF AN UPTURN UNTIL WELL INTO 1976. THE SWISS CREDIT BANK SEES A DECLINE OF ABOUT 3 PERCENT IN REAL GNP THIS YEAR WITH THE BUILDING INDUSTRY CONTINUING TO BE THE MOST DEPRESSED SECTOR; THE TOTAL VALUE OF CONSTRUCTION ACTIVITY DURING 1975 IS EXPECTED TO BE APPROXIMATELY 10 PERCENT BELOW 1974. A UNION BANK SURVEY OF 250 SWISS INDUSTRIAL COMPANIES INDICATES THAT CAPITAL INVESTMENT AND THE DEMAND FOR CREDIT WILL REMAIN LOW IN THE COMING MONTHS DUE TO A GENERAL UNCERTAINTY ABOUT

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DOMESTIC AND WORLD ECONOMIC CONDITIONS.

6. AID TO THE CONSTRUCTION INDUSTRY: IN A FURTHER EFFORT TO HELP THE CONSTRUCTION INDUSTRY, THE FEDERAL COUNCIL THIS WEEK AUTHORIZED THE RELEASE OF SF 60 MILLION (TO BE SUPPLEMENTED BY AN ADDITIONAL SF 10 MILLION FROM THE CANTONS) FOR HIGHWAY CONSTRUCTION AND EASED THE RESTRICTIONS ON REAL ESTATE PURCHASES BY FOREIGNERS.

7. UNEMPLOYMENT: GOVERNMENT STATISTICS LIST 7,531 PERSONS AS UNEMPLOYED AT THE END OF JUNE, AS COMPARED WITH 6,527 AT THE END OF MAY AND 62 AT THE END OF JUNE 1974. ALTHOUGH THE NUMBER OF JOB OPENINGS ALSO INCREASED IN JUNE, THE RATION OF JOBS TO JOBLESS DECLINED FROM 46 OPENINGS FOR EVERY UNEMPLOYED PERSON A YEAR AGO TO ONE OPENING FOR EVERY TWO AND ONE-HALF PERSONS LOOKING FOR WORK THIS JUNE.

8. FOREIGN TRADE: AS SHOWN BELOW, THE VALUE OF IMPORTS DURING JUNE CONTINUED TO FALL WHILE EXPORTS RECORDED THEIR FIRST YEAR-TO-YEAR GAIN IN 1975; THE MONTHLY TRADE BALANCE REGISTERED A SURPLUS (SF 112.2 MILLION), THE FIRST SINCE NOVEMBER 1968. SWITZERLAND AGAIN HAD A DEFICIT IN ITS TRADE WITH THE US IN JUNE, ALTHOUGH THE SIZE OF THE DEFICIT HAS BECOME SMALLER WITH EACH SUCCEEDING MONTH SINCE THE FIRST OF THE YEAR AND THE US SHARE OF TOTAL IMPORTS HAS SLIPPED FROM 9.4 PERCENT IN JANUARY TO 6.4 PERCENT IN JUNE.

	WORLD	US
	MILLION SF (PCT. CHANGE OVER SAME PERIOD 1974)	
JUNE		

IMPORTS	2,827 (-20.5)	180 (-36.6)
EXPORTS	2,939 (PLUS 1.9)	166 (-22.1)

JAN. -JUNE

IMPORTS	17,782 (-18.9)	1,418 (-4.0)
EXPORTS	16,317 (-7.1)	934 (-21.2)

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